Canada Council for the Arts | Conseil des arts du Canada

Quarterly

Financial Report

Unaudited

Period ended December 31, 2013
Published February 28, 2014

Bringing the arts to life
De l'art plein la vie

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Management Discussion and Analysis

Quarterly Report

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INTRODUCTION

This narrative discussion relates to the financial results of the Canada Council for the Arts (the Council) for the nine-month period ended December 31, 2013 as set out in the accompanying unaudited quarterly financial statements. These statements are disclosed in accordance with the requirements of section 131.1 of the Financial Administration Act and are prepared in accordance with Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

Management is responsible for the information presented in the unaudited quarterly financial statements and in this narrative discussion, both of which have been reviewed and endorsed by the Audit and Finance Committee of the Council's Board of Directors. In assessing what information is to be provided in the narrative discussion, management applies the materiality principle as guidance for disclosure. Management considers information material if it is probable that its omission or misstatement, judged in the surrounding circumstances, would influence the decisions of the primary user of this information, the Government of Canada.

This discussion contains "forward-looking statements" that reflect management's expectations regarding the Council's results of operations. These statements are not facts but only estimates based upon information and assumptions that are currently available to, or made by, management and which are subject to a number of risks and uncertainties. These and other factors may cause actual results to differ substantially from the expectations stated or implied in the forward-looking statements.

The Financial Administration Act does not require the Council to file a corporate plan with the Government of Canada. Therefore, neither this narrative discussion nor the unaudited quarterly financial statements disclose a comparison of results against the Council's Corporate Plan. As required by PSAS, the unaudited quarterly financial statements do provide comparisons with the Council's approved annual budget for the year.

HIGHLIGHTS

The Canada Council for the Arts' Annual Report for 2012-13 was tabled in Parliament on November 7, 2013. This year's report had an increased focus on demonstrating results.

The Council recognized the achievement in November 2013 of Alice Munro's winning the Nobel Prize for Literature, the first Canadian woman author to do so. Ms. Munro is a three-time winner and five-time finalist of the Governor General's Literary Awards and was awarded the Molson Prize in 1990; both of these prizes are administered by the Council.

The annual meeting with National Arts Service Organizations (NASO) was held in Ottawa on October 20 and 21, 2013. This meeting, which brings together over 60 representatives from all artistic disciplines, addressed Council's strategic directions, reviewed changes in funding programs to organizations and allowed for an exchange around best practice case studies from the NASOs.

The Council moved to a new location, 150 Elgin Street in Ottawa, over the month of December 2013. The move went smoothly and service to the arts community was not disrupted during this time.

Net Results

	Three months ended December 31				Nine months ended December 31			
in thousands of dollars	2013	2012	Increase/ (Decrease)	% change	2013	2012	Increase/ (Decrease)	% change
Revenue	3,801	7,807	(4,006)	-51%	5,242	10,800	(5,558)	-51%
Expenses	(13,562)	(12,926)	636	5%	(152,535)	(148,491)	4,044	3%
Government funding	34,659	33,000	1,659	5%	159,659	158,127	1,532	1%
Net results for the period	24,898	27,881	(2,983)	-11%	12,366	20,436	(8,070)	-39%

Overview of the Third Quarter Net Results

Net results for the quarter were $24.9 million, a decrease of $3.0 million over the third quarter of the previous fiscal year. This decrease reflects the following changes in revenue and expenses which are also explained in more details in the Financial Results section:

- Revenue for the third quarter was $4 million lower compared to last year. This decrease is due to a $4.3 million reduction in investment income. The $1.7 million increase in government funding is due to a higher drawdown of parliamentary appropriations for cash flow requirements in order to compensate for lower investment income.
- Expenses in the quarter were $0.6 million higher compared to last year. This increase is mainly related to the timing in grant expenses.

The Council will continue to monitor its financial results and expects to recover the majority of the shortfall in investment income with realized capital gains resulting from the re-balancing of the asset classes within its investment portfolio. This rebalancing of assets classes will be performed during the last quarter of 2013-14.

IMPORTANT CHANGES

Programs

The first deadline for the new Leadership for Change program was on December 15, 2013. A total of 174 applications were received from all disciplines, indicating a high level of interest by the arts community. The results will be announced in the spring of 2014.

The Council began implementing the new Market Access Strategy for Official Language Minority Community Artists, an initiative of the Roadmap for Canada's Official Languages, with an investment of $2.75 million over five years. This funding, delivered through existing programs, will assist artists and arts organizations from Francophone and Anglophone minority communities to develop and reinforce markets for their artistic work, as well as increase their internal capacity to reach new markets.

The Aboriginal Arts Program Evaluation, looking at the suite of programs serving Aboriginal artists and arts organizations, began in November 2013. The evaluation will focus on the outcomes of this $1.5 million annual investment and what can be done to make these programs more effective. The evaluation will be completed in 2015.

Operational Activity

The Council is currently undertaking a major initiative to update its technology systems with the goal of ultimately changing the way work is conducted, by leveraging the benefits of new, innovative technologies, leading to efficiency gains in the delivery of services to its clients and stakeholders.

The development and implementation of a new Grants and Client Management System started during the summer 2013. In the fall 2013, an internal audit was undertaken to assess the effectiveness of the governance systems and practices related to the implementation of a new system.

The Council is developing a strategy to address the audit recommendations and to solidify the approach for a successful implementation.

Leadership and Governance

The Minister of Canadian Heritage and Official Languages announced the appointment on December 19, 2013 of Ms. Nathalie Bondil as Vice-Chair of the Council, effective March 31, 2014. Ms. Bondil will replace Mr. Simon Brault, whose term as Vice-Chair ends March 30, 2014.

Mr. John Goldsmith, Director, Stakeholder Relations, retired in December 2013 after 23 years of service to the Council. This position is eliminated and responsibilities have been transferred to other staff.

The Canadian Commission for UNESCO Secretary-General's position became vacant in October 2013. The Council has undertaken a process to fill the position by Spring 2014.

FINANCIAL RESULTS

The following section provides further detail and explanation of financial results presented in the quarterly financial statements:

Revenues

	Three months ended December 31				Nine months ended December 31			
(in thousands of dollars)	2013	2012	Increase/ (Decrease)	% change	2013	2012	Increase/ (Decrease)	% change
Net investment income	3,314	7,597	(4,283)	-56%	4,265	9,452	(5,187)	-55%
Net Art Bank income (loss)	50	(39)	89	228%	49	(78)	127	163%
Other revenues	437	249	188	76%	928	1,426	(498)	-35%
Total revenue	3,801	7,807	(4,006)	-51%	5,242	10,800	(5,558)	-51%

Net Investment Income

- The $4.3 million reduction in investment income is partly due to a $1.2 million realized loss attributable to an investment manager transition. The poor performance of the fixed income asset class also translated in a $3.6 million reduction in distributed dividend income. The performance of this asset class is consistent with the benchmark, the DEX Universe Bond Index, which generated an annual negative return of 1.2% for the year ended December 31, 2013 versus a positive return of 3.6% for the same period in 2012.

  The investment income is anticipated to be lower at year-end than the original budget but other distributions are expected in the last quarter. The new fixed income manager distributes on a quarterly basis compared to the previous manager which only distributed once at the end of the calendar year. The Council will also re-balance its investment portfolio which will result in some capital gains being realized.

  The reader is reminded that unrealized changes in the fair value of the portfolio investment are recognized in the Statement of Remeasurement Gains and Losses, except for the restricted portion which is recognized as a liability under Deferred revenues - Externally restricted contributions.

Other Revenue

- The majority of the increase in other revenues relates to membership fees for Canadian Public Arts Funders which were recorded in the second quarter last year.

Expenses

(in thousands of dollars)	Three months ended December 31				Nine months ended December 31			
	2013	2012	Increase/ (Decrease)	% change	2013	2012	Increase/ (Decrease)	% change
Grants	4,504	3,947	557	14%	125,474	122,288	3,186	3%
Program delivery costs	4,560	4,343	217	5%	13,481	12,752	729	6%
Canadian Commission for UNESCO	514	474	40	8%	1,617	1,382	235	17%
General administration	3,984	4,162	(178)	-4%	11,963	12,069	(106)	-1%
Net results for the period	13,562	12,926	636	5%	152,535	148,491	4,044	3%

Grant expenses for the quarter are higher than the same period last year due to the timing of competition deadlines and approval of results by the Board, both of which differ from the prior year.

No other major variances were noted in the expenses.

Grants and other expenses are forecasted to be aligned with the budget by year-end.

Financial Assets

(in thousands of dollars)	December 31 2013	March 31 2013	Increase/ (Decrease)
Cash and Cash equivalents	22,597	197	22,400
Accounts receivable	2,029	3,488	(1,459)
Derivatives	-	5	(5)
Portfolio investments	311,252	285,141	26,111
Total	335,878	288,831	47,047

Cash and Cash Equivalents

The increase of $22.4 million in Cash and Cash Equivalents compared to year-end is primarily the result of the difference in the timing of the drawdown of Council's Parliamentary appropriations and the cash flow requirements of grant payments. The $22.4 million increase is mostly due to the cash provided by operating transactions: surplus from operations of $12.4 million, increase in grants payable of $4.9 million and increase in the deferred Parliamentary appropriations of $6.0 million.

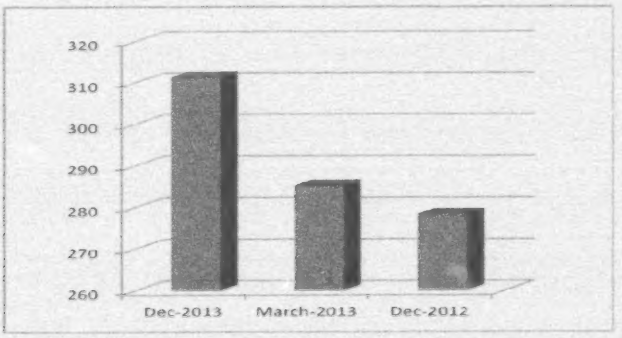
Accounts Receivable

The decrease of $1.5 million arises primarily from a $1.0 million net decrease in accrued investment income as of December 31, 2013 and the receipt, in the third quarter, of $320 thousand for the GST/HST rebate.

Portfolio Investments

The total market value of the portfolio as at December 31, 2013 was $311.3 million of which $83.7 million was externally restricted. This represents an increase of $26.1 million since March 31, 2013 and $33.0 million since December 31, 2012 as a result of positive returns.

The total fund generated an absolute return of 5.3% for the quarter which was lower than the benchmark return by 0.7%. The main contributors to the returns for that



period were the performances of the Global and Canadian Equity managers. Both Canadian and Global equity asset classes generated a return between 8-10% which was close to their benchmark.

Since January 1st, 2013, the total fund generated an absolute return of 15.5% which was higher than the benchmark return by 1.7%. The main contributor for this year-to-date return were the performance of the Global and Canadian Equity managers which posted a 31.7% and 14.1% returns respectively.

Liabilities

(in thousands of dollars)	December 31 2013	March 31 2013	Increase/ (Decrease)
Bank indebtedness	-	1,347	(1,347)
Grants payable	31,853	26,984	4,869
Accounts payable and accrued liabilities	2,134	3,513	(1,379)
Deferred revenues	1,691	1,764	(73)
Deferred Parliamentary appropriations	6,000		6,000
Derivatives	-	97	(97)
Employee future benefits	2,496	2,515	(19)
Externally restricted contributions	35,187	27,721	7,466
Total	79,361	63,941	15,420

Bank indebtedness

The bank indebtedness as of March 31, 2013 represents the total of all outstanding cheques at year-end which brought the cash balance in a negative position.

Grants payable

The variance of $4.9 million is mostly explained by the overall increase of $3.2 million in grant expenses for the nine month period compared to the same period last year.

Accounts payable and accrued liabilities

The decrease of $1.4 million in comparison to the value as of March 31, 2013 is mainly due to a reduction of $2.0 million in commercial invoices due to the timing of the payment schedule. This was partially offset by an increase of $650 thousand in accrued payroll liability related to the period ended December 31, 2013.

Deferred Parliamentary appropriations

The increase of $6.0 million in comparison to the value as of March 31, 2013 is due to Parliamentary appropriations of $6.0 million which were received before the end of the third quarter.

Derivatives

The Council does not use derivatives to manage its exposure to foreign currency exchange risk on the non-Canadian dollar denominated portion of its investment portfolio as most of its current investment managers already have a currency strategy within their pooled fund to manage this risk. The last foreign currency forward contracts held by the Council settled in June 2013, which explains the nil value under derivatives both in the assets and liabilities sections at December 31, 2013.

Externally restricted contributions

The increase of $7.5 million in comparison to the value as of March 31, 2013 is due mainly to the increase in market value of the investment portfolio of which $6.9 million is unrealized gain.

Non-Financial Assets

(in thousands of dollars)	December 31 2013	March 31 2013	Increase/ (Decrease)
Tangible capital assets	2,499	2,339	160
Art Bank Inventory	19,420	19,356	64
Musical instruments	1	1	-
Prepaid expenses	440	306	134
Total	22,360	22,002	358

Art Bank Inventory

The Council owns approximately 17,500 works of contemporary Canadian art within its Art Bank collection. The increase since March 31 2013 represents the appraised value of the artworks received in donation. At December 31, 2013 the appraised value of the Art Bank inventory was approximately $71 million. The Council insures its Art Bank inventory for its estimated appraised value.

Musical Instruments

The Council operates a Musical Instrument Bank and it currently owns a fine cello bow and eight quality musical instruments. In addition, the Council manages 11 instruments on loan, 9 of which are lent by anonymous donors. The appraised value of its musical instruments as at December 31, 2013 was $36.7 million. These are included on the Statement of Financial Position at a nominal value. The Council insures the musical instruments at their appraised value.

RISK MANAGEMENT

Corporate Risk

In line with good governance practices, the Council updates and revises its Corporate Risk Profile on an ongoing basis, identifying and including any changes in the Council's risk environment. Effective risk mitigation strategies and action plans are developed, under the oversight of assigned members of executive management, to reduce exposure to an acceptable and manageable level.

The Audit and Finance Committee endorsed the Risk Mitigation Strategies Plan presented by Management at its November 2013 meeting. Management continues to monitor progress of the implementation of these mitigation strategies and reports results to the Audit and Finance Committee on an ongoing basis.

Financial Risk

The Council is exposed to a variety of financial risks mainly through its investment portfolio. The Council's investment portfolio is primarily exposed to price risk, interest rate risk and currency risk. The Investment Committee reviewed the Council's investment policy during the first quarter and recommended changes in the asset mix allocation which were approved by the Board. This policy sets out the long term investment objectives and guidelines under which the portfolio is to be invested. The new asset mix allocation is detailed in Note 3 of the unaudited quarterly financial statements.

USE OF PARLIAMENTARY APPROPRIATIONS

The following is intended to supplement the information provided elsewhere regarding the Council's use of its Parliamentary appropriations.

The Council receives its main funding through an appropriation voted by Parliament. The Council records the Parliamentary appropriations received in the period as revenue in the Statement of Operations. The Council submits a monthly cash flow analysis to the Department of Canadian Heritage to justify its monthly drawdown cash requirements. The cash-flow requirements may not necessarily match the timing of expenses reported in the Statement of Operations. The monthly drawdown is invested in a short-term pooled fund managed by a professional investment manager from which the Council draws its daily cash requirements.

The Parliamentary appropriations approved and received by the Council during the nine month period were as follows:

(in thousands of dollars)	December 31 2013	2012
Approved annual operating funding		
Vote 10 - Operating costs	180,261	181,761
Supplementary Estimates	127	107
Reduction to non-recurring funding for progamming activities	-	(500)
Compensation adjustment	531	-
	180,919	181,368
Parliamentary appropriations for operating expenses recorded		
in the Statement of Operations for the nine month period	(159,659)	(158,127)
Balance of operating funding to be received	21,260	23,241

Canada Council for the Arts | Conseil des arts du Canada

Quarterly

Financial Statements

Unaudited

These financial statements for the quarter ended December 31, 2013 have not been audited or reviewed by our Auditor

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Management's Responsibility for Financial Reporting

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

February 28, 2014

Robert Sirman
Director and Chief Executive Officer

Pascale Legault, CPA, CA
Chief Financial Officer

Statement of Financial Position

(Unaudited) (In thousands of dollars)	December 31 2013	March 31 2013
FINANCIAL ASSETS		
Cash and cash equivalents	$ 22,597	$ 197
Accounts receivable	2,029	3,488
Derivatives	-	5
Portfolio investments (Note 3)	311,252	285,141
Total financial assets	335,878	288,831
LIABILITIES		
Bank indebtedness	-	1,347
Grants payable	31,853	26,984
Accounts payable and accrued liabilities	2,134	3,513
Deferred revenues	1,691	1,764
Deferred Parliamentary appropriations	6,000	-
Derivatives	-	97
Employee future benefits	2,496	2,515
Deferred revenues - Externally restricted contributions (Note 5)	35,187	27,721
Total liabilities	79,361	63,941
NET FINANCIAL ASSETS	256,517	224,890
NON-FINANCIAL ASSETS		
Tangible capital assets	2,499	2,339
Art Bank inventory	19,420	19,356
Musical instruments	1	1
Prepaid expenses	440	306
Total non-financial assets	22,360	22,002
ACCUMULATED SURPLUS (Note 6)	$ 278,877	$ 246,892
Accumulated surplus is comprised of:		
Accumulated surplus from operations	250,363	237,997
Accumulated remeasurement gains	28,514	8,895
ACCUMULATED SURPLUS	$ 278,877	$ 246,892

The accompanying notes and schedules form an integral part of the financial statements

Statement of Operations

(Unaudited) (in thousands of dollars)	Yearly Budget	Three months ended December 31		Nine months ended December 31	
	2013	2013	2012	2013	2012
Revenue					
Net investment income (Note 7)	$ 9,560	$ 3,314	$ 7,597	$ 4,265	$ 9,452
Net Art Bank income (loss) (Note 8)	(244)	50	(39)	49	(78)
Other revenue	1,586	437	249	928	1,426
Total revenue	10,902	3,801	7,807	5,242	10,800
Expenses					
Programs					
Grants	152,360	4,504	3,947	125,474	122,288
Administration	14,635	3,437	3,250	10,293	9,454
Services	6,555	1,123	1,093	3,188	3,298
	173,550	9,064	8,290	138,955	135,040
Canadian Commission for UNESCO (Note 9)	2,346	514	474	1,617	1,382
General administration	15,646	3,984	4,162	11,963	12,069
Total expenses	191,542	13,562	12,926	152,535	148,491
Annual deficit from operations before Parliamentary appropriations	(180,640)	(9,761)	(5,119)	(147,293)	(137,691)
Parliamentary appropriations	180,661	34,659	33,000	159,659	158,127
SURPLUS FROM OPERATIONS FOR THE PERIOD	21	24,898	27,881	12,366	20,436
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	237,997	225,465	205,214	237,997	212,659
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	$ 238,018	$ 250,363	$ 233,095	$ 250,363	$ 233,095

Statement of Change in Net Financial Assets

(Unaudited) (in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2013	2012	2013	2012
SURPLUS FROM OPERATIONS FOR THE PERIOD	$ 24,898	$ 27,881	$ 12,366	$ 20,436
Acquisition of tangible capital assets	(392)	(210)	(846)	(627)
Amortization of tangible capital assets	228	244	686	732
Acquisition of Art Bank inventory	(64)	-	(64)	-
	(228)	34	(224)	105
Acquisition of prepaid expenses	(440)	(802)	(1,490)	(1,355)
Use of prepaid expenses	759	285	1,356	826
	319	(517)	(134)	(529)
Net remeasurement gains (losses)	10,265	(182)	19,619	2,868
INCREASE IN NET FINANCIAL ASSETS	35,254	27,216	31,627	22,880
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	221,263	205,748	224,890	210,084
NET FINANCIAL ASSETS, END OF PERIOD	$ 256,517	$ 232,964	$ 256,517	$ 232,964

The accompanying notes and schedules form an integral part of the financial statements.

Statement of Remeasurement Gains and Losses

(Unaudited)	Three months ended December 31		Nine months ended December 31	
(In thousands of dollars)	2013	2012	2013	2012
ACCUMULATED REMEASUREMENT GAINS (LOSSES), BEGINNING OF PERIOD	$ 18,249	$ 2,905	$ 8,895	$ (145)
Unrealized gains (losses) attributable to:				
Derivatives	-	(9)	-	34
Portfolio investments	9,241	(274)	18,667	2,920
Amounts reclassified to the Statement of Operations				
Derivatives	-	101	40	(147)
Portfolio investments	1,024	-	912	61
NET MEASUREMENT GAINS (LOSSES) FOR THE PERIOD	10,265	(182)	19,619	2,868
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	$ 28,514	$ 2,723	$ 28,514	$ 2,723

Statement of Cash Flow

(Unaudited)	Three months ended December 31		Nine months ended December 31	
(In thousands of dollars)	2013	2012	2013	2012
Operating Transactions				
Surplus from operations for the period	$ 24,898	$ 27,881	$ 12,366	$ 20,436
Losses from disposal of portfolio investments (Note 7)	1,349		1,200	82
Realized gains (losses) on change in derivatives fair value	-	140	(37)	(200)
Amortization of tangible capital assets	228	244	686	732
Donation to the Art Bank inventory	(64)	-	(64)	-
(Increase) Decrease in prepaid expenses	319	(517)	(134)	(529)
Decrease in employee future benefits	(76)	(1,661)	(19)	(1,661)
Income transferred from Deferred revenues - Externally restricted contributions				
To investment income (Note 5)	1,065	2,654	273	2,014
To other revenues (Note 5)	-	-	-	(363)
Net change in other non-cash items (Note 10)	(33,405)	(25,009)	10,876	382
Cash provided (used) by operating activities	(5,686)	3,732	25,147	20,893
Capital Transactions				
Cash used to acquire tangible capital assets	(392)	(210)	(846)	(627)
Investing Transactions				
Acquisition of portfolio investments	(82,050)	(2,983)	(109,726)	(6,420)
Disposal of portfolio investments	81,285	669	109,172	2,649
Cash used by investing activities	(765)	(2,314)	(554)	(3,771)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,843)	1,208	23,747	16,495
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	29,440	13,724	(1,150)	(1,563)
CASH AND CASH EQUIVALENTS, END OF PERIOD	22,597	14,932	22,597	14,932

The accompanying notes and schedules form an integral part of the financial statements

Notes to the Financial Statements
for the period ended December 31, 2013

(Unaudited)

1. AUTHORITY AND ACTIVITIES

The Canada Council for the Arts (the "Council"), established by the Canada Council Act in 1957 and subsequently amended in 2001 by Bill C-40 to the Canada Council for the Arts Act, is not an agent of Her Majesty and is deemed to be a registered charity for the purposes of the Income Tax Act. In accordance with section 85(1.1) of the Financial Administration Act, the Council is exempt from Divisions I to IV of Part X of this Act, except for subsection 105(2) and sections 113.1 and 119 of Division II, sections 131 to 148 of Division III and section 154.01 of Division IV. The Council is a Crown corporation whose objectives are to foster and promote the study and enjoyment of and the production of works in the arts.

The Council achieves its objectives primarily through grant programs to professional Canadian artists and arts organizations. The Council incurs administration and services expenses in the delivery of programs. Program administration expenses represent the direct costs of program delivery. Program services expenses represent costs incurred for non-grant activities in fulfillment of the Council's mandate and costs associated with the adjudication of grants. General administration costs represent the costs related to corporate management, communications, human resources, information management, finance, accommodation and amortization.

The Canada Council for the Arts Act assigns the Council with the functions and duties for the Canadian Commission for UNESCO (the "Commission"). The Commission advises the Government of Canada on its relations with the United Nations Educational, Scientific and Cultural Organization (UNESCO). The Commission also fosters co-operation between Canadian organizations in civil society and UNESCO.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting
These unaudited interim financial statements have been prepared in accordance with Public Sector Accounting Standards (PSAS) pursuant to the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board.

Basis of preparation
These interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements for the year ended March 31, 2013. Accordingly, they should be read in conjunction with the audited annual financial statements. The interim financial statements are unaudited for all periods presented. The accounting policies used in the preparation of these interim condensed financial statements are consistent with those disclosed in the Council's last audited annual financial statements.

Measurement uncertainty
The preparation of financial statements in accordance with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting period. Employee-related liabilities, the estimated useful lives of tangible capital assets and the Art Bank inventory, the residual and appraised value of the Art Bank inventory, and the fair value of financial instruments are the most significant items where estimates are used. Actual results could differ from those estimated.

Budgeted figures
Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Board.

3. PORTFOLIO INVESTMENTS

	Year-to-date December 31, 2013					Year-end March 31, 2013		
(in thousands of dollars)	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
	$	$	$	$	%	$	$	%
Canada Council Endowment and Special Funds								
Pooled funds								
Equity	105,876	-	27,392	133,268	53.8	102,951	112,026	49.4
Fixed income	60,249	606	-	59,643	24.1	73,316	72,049	31.7
Alternatives	19,430	-	4,178	23,608	9.5	10,670	13,491	6.0
Money market	14,904	-	45	14,949	6.0	13,266	13,266	5.8
Real estate	7,939	-	1,460	9,399	3.8	8,336	9,349	4.1
Infrastructure	8,015	1,150	-	6,865	2.8	8,464	6,828	3.0
	216,413	1,756	33,075	247,732	100.0	217,003	227,009	100.0
Killam Fund								
Pooled funds								
Equity	27,058	-	7,003	34,061	53.6	26,312	28,631	49.3
Fixed income	15,285	213	-	15,072	23.7	18,607	18,268	31.4
Alternatives	4,998	-	1,067	6,065	9.5	2,718	3,436	5.9
Money market	3,703	-	12	3,715	5.9	3,198	3,198	5.5
Real estate	2,131	-	410	2,541	4.0	2,245	2,519	4.3
Infrastructure	2,416	350	-	2,066	3.3	2,580	2,080	3.6
	55,591	563	8,492	63,520	100.0	55,650	58,132	100.0
Total investments	272,004	2,319	41,567	311,252		272,653	285,141	

Unrealized gains/losses on investments are primarily due to the timing of the market prices, foreign exchange movements, or the early years in the business cycle for some investments. Annually, the Council assesses each of its investment instruments against specific criteria to determine whether there is objective evidence that the adjusted cost may not be recovered and is therefore impaired. The Council does not consider these investments to be other-than-temporarily impaired.

The Council manages two separate portfolios, the Canada Council Endowment and Special Funds and the Killam Fund. The Killam will requested that their donation be invested separately. Apart from the Killam Fund, all other externally restricted contributions are consolidated into the Canada Council Endowment and Special Funds and represent 8.1% (March 31, 2013 - 8.1%) of that Fund with a total fair value of $20,141,000 (March 31, 2013 - $18,138,000). The total fair value of the externally restricted investment including the Killam Fund is $83,660,000 (March 31, 2013 - $76,270,000).

The long-term objectives of the Canada Council Endowment and Special Funds and the Killam Fund are to generate long-term real returns to supplement the costs of administering the various programs, while maintaining the purchasing power of the endowed capital.

The Council invests in units of equity, fixed income and alternative pooled funds and in limited partnership units of four real estate funds and two infrastructure funds. The permitted and prohibited investments, the asset mix as well as some maximum holding quantity restrictions are governed by a Board-approved investment policy to mitigate concentration risk. All of the investments are managed by professional investment managers.

The Council manages its portfolio to the following benchmarks adopted by the Board in June 2013. The benchmarks allow asset class allocations to vary between a minimum and a maximum.

Asset Classes	Actual Market Value	Minimum	Benchmark	Maximum
Canadian equities	10%	5%	10%	15%
Global equities	43%	35%	40%	45%
Fixed income	24%	15%	25%	30%
Alternatives	10%	5%	10%	15%
Real estate	4%	0%	7.5%	10%
Infrastructure	3%	0%	7.5%	10%
Money market	6%	0%	0%	15%

The money market asset class includes short-term pooled funds used for future investments in alternatives and capital commitments in limited partnership units of real estate and infrastructure funds. These funds had a balance of $18,664,000 (March 31, 2013 - $16,464,000).

Investments in the equity pooled funds are comprised of units of three pooled funds, one Canadian fund and two funds that are invested in the global equity markets. The Canadian equities are measured against the returns of the Standard and Poor's Toronto Stock exchange Index. The global equities are measured against the returns of the Morgan Stanley Capital International World Hedge Index. Investments in the fixed income pooled fund are from a Core-Plus bond which may include Canadian and foreign conventional bonds, mortgages, high yield bonds and other fixed income investments. The fixed income fund is measured against the returns of the DEX Universe Bond Index. Investments in the alternative pooled funds are comprised of units of one hedge fund with diversified positions across global asset classes. This investment is measured against the returns of the Scotia Capital 91-day T-bill plus 20%. The assets included in the real estate funds are commercial real estate properties in Canada and the United States. These investments are measured against the returns of the Investment Property Databank for the Canadian managers and the National Council of Real Estate Investment Fiduciaries (NCREIF) for the US manager. The infrastructure funds include two portfolios of diversified infrastructure investments. These investments are measured against the Consumer Price Index plus 4.5%.

4. FINANCIAL RISKS AND FAIR VALUE

The measurement categories of the Council's financial instruments, as well as their carrying amounts and fair values are as follows:

(in thousands of dollars)		Year-to-date December 31, 2013	Year-end March 31, 2013
Financial assets and liabilities and classifications	Measurement categories	Carrying amount and fair value ($)	Carrying amount and fair value ($)
Cash and cash equivalents	Fair value	22,597	197
Accounts receivable	Amortized cost	2,029	3,488
Derivatives net	Fair value	-	(92)
Portfolio investments	Fair value	311,252	285,141
Bank indebtedness	Fair value	-	1,347
Grants payable	Amortized cost	31,853	26,984
Accounts payable and accrued liabilities	Amortized cost	2,134	3,513

1 The detailed fair value for the investments is listed in Note 3.

a) Establishing fair value

The carrying value of accounts receivable, grants payable and accounts payable and accrued liabilities approximates their fair values due to their short-term maturity.

The fair value of derivative instruments is calculated using the current market spot and the forward exchange rates at the end of the period.

The fair values of the investments are determined as follows:

- Pooled fund investments are valued at the unit values supplied by the pooled fund managers, which represent the Council's proportionate share of the underlying net assets at fair values, determined using closing market prices.
- The Alternatives is a pooled fund investment which is valued at the unit values supplied by the pooled fund manager. The fund manager manages multiple funds strategies within the fund and determines the unit's fair value using the closing market prices for some strategies when available or using valuation model with non-observable data for other strategies.
- Real estate investment values are supplied by the fund managers using independently audited appraisals which are based on a valuation model with unobservable input. The independently audited appraisals are obtained annually.
- Infrastructure investment values are supplied by the fund managers using internally determined appraisals. The appraisals are based on a valuation model with unobservable input. The independently audited appraisals are obtained annually.

b) Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the Statement of Financial Position, classified using the fair value hierarchy described above:

Financial assets at fair value

(in thousands of dollars)	Year-to-date December 31, 2013				Year-end March 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	11,372	11,225	-	22,597	-	197	-	197
Derivatives	-	-	-	-	5	-	-	5
	11,372	11,225	-	22,597	5	197	-	202
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Equity	-	133,268	-	133,268	-	112,026	-	112,026
Fixed Income	-	59,643	-	59,643	-	72,049	-	72,049
Alternatives	-	-	23,608	23,608	-	-	13,491	13,491
Money Market	-	14,949	-	14,949	-	13,266	-	13,266
Real Estate	-	-	9,399	9,399	-	-	9,349	9,349
Infrastructure			6,865	6,865		-	6,828	6,828
Killam Fund								
Pooled Funds								
Equity	-	34,061	-	34,061	-	28,631	-	28,631
Fixed Income	-	15,072	-	15,072	-	18,268	-	18,268
Alternatives			6,065	6,065			3,436	3,436
Money Market	-	3,715	-	3,715	-	3,198	-	3,198
Real Estate	-	-	2,541	2,541	-	-	2,519	2,519
Infrastructure	-	-	2,066	2,066	-	-	2,080	2,080
	-	260,708	50,544	311,252	-	247,438	37,703	285,141
Total	11,372	271,933	50,544	333,849	5	247,635	37,703	285,343

Financial liabilities at fair value

(in thousands of dollars)	Year-to-date December 31, 2013				Year-end March 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Bank indebtedness	-	-	-	-	1,347	-	-	1,347
Derivatives	-	-	-	-	97	-	-	97
Total	-	-	-	-	1,444	-	-	1,444

5. DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS

The deferred revenues from externally restricted contributions consist of accumulated income received which has been deferred until the resources have been used for the purpose or purposes specified by the endowment. The restricted endowment principal of $37,569,000 is required to be maintained intact and is reported under accumulated surplus from operations (see Note 6).

(in thousands of dollars)	Year-to-date December 31, 2013	Year-end March 31, 2013
Balance, beginning of period	$ 27,721	$ 23,594
Transferred from (to) investment income (Note 7)		
Net investment income	1,216	3,696
Use of funds	(943)	(2,452)
	273	1,244
Transfer to other revenues	-	(363)
Unrealized gains on portfolio investment	6,890	3,551
Unrealized losses on derivatives	-	(15)
Reclassified to statement of operations - portfolio	288	(250)
Reclassified to statement of operations - derivatives	15	(40)
Balance at end of period	$ 35,187	$ 27,721

The unrealized gains and losses on portfolio investment and derivatives are related to the change in fair value of those assets from the previous period.

6. ACCUMULATED SURPLUS

(in thousands of dollars)	Year to date December 31, 2013		Year end March 31, 2013	
Accumulated surplus from operations				
Endowment - Original contribution		$ 50,000		$ 50,000
Endowment principal – Externally restricted contributions		37,569		37,569
Reserve for excess investment income				
Balance at beginning of the period	123,445		118,445	
Appropriated from the accumulated surplus during the period	-		5,000	
Balance at end of the period		123,445		123,445
Surplus				
Balance at beginning of the period	26,983		25,992	
Appropriated to the reserve for excess investment income during the period	-		(5,000)	
Surplus for the period	12,366		5,991	
Balance at end of the period		39,349		26,983
Total accumulated surplus from operations		250,363		237,997
Accumulated remeasurement gains (losses)				
Balance at beginning of the period	8,895		(145)	
Change in fair value	19,619		9,040	
Balance at end of the period		28,514		8,895
Balance of accumulated surplus at end of period		$ 278,877		$ 246,892

7. NET INVESTMENT INCOME

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2013	2012	2013	2012
Gains (losses) from disposal of portfolio investments	$ (1,349)	$ -	$ (1,200)	$ (82)
Income transferred to deferred revenues -				
Externally restricted contributions (Note 5)	(1,065)	(2,653)	(273)	(2,014)
Net gains (losses) on derivatives	-	(650)	(300)	505
Interest, dividend and other distributed income	6,082	11,277	7,094	12,057
Investment portfolio management costs	(354)	(377)	(1,056)	(1,014)
	$ 3,314	$ 7,597	$ 4,265	$ 9,452

8. NET ART BANK INCOME (LOSS)

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2013	2012	2013	2012
Rental revenue	$ 365	$ 372	$ 1,141	$ 1,121
Other income	104	37	186	112
Administration expense	(415)	(441)	(1,264)	(1,291)
Amortization of other capital assets	(4)	(7)	(14)	(20)
	$ 50	$ (39)	$ 49	$ (78)

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2013	2012	2013	2012
Program expenses	$ 173	$ 245	$ 518	$ 533
Program - contributions received	(1)	(96)	(1)	(96)
Administration expense	342	325	1,100	945
	$ 514	$ 474	$ 1,617	$ 1,382

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2013	2012	2013	2012
(Increase) Decrease in accounts receivable	$ (454)	$ (5,830)	$ 1,459	$ (4,283)
Increase (Decrease) in grants payable	(25,651)	(26,351)	4,869	(114)
Increase (Decrease) in accounts payable and accrued liabilities	539	373	(1,379)	(1,701)
Increase (Decrease) in deferred revenues	161	319	(73)	-
Increase (Decrease) in deferred Parliamentary appropriations	(8,000)	6,480	6,000	6,480
Net change	$ (33,405)	$ (25,009)	$ 10,876	$ 382

11. RELATED PARTY TRANSACTIONS

The Council is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Council enters into transactions with related parties in the normal course of business on normal trade terms applicable to all individuals and enterprises, and these transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.